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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:)
)
EN BANC HEARING -)
UNIVERSAL SERVICE METHODOLOGY)

Federal Communications
Commission
1919 M Street, N.W.
Room 865,
Commission Meeting Room
Washington, D.C.

Monday,
June 8, 1998

The parties met at 9:30 a.m.

APPEARANCES:

CHAIRMAN WILLIAM KENNARD
COMMISSIONER MICHAEL K. POWELL
COMMISSIONER HAROLD FURCHTGOTT-ROTH
COMMISSIONER SUSAN NESS
COMMISSIONER GLORIA TRISTANI
GLENN BROWN
PAT WOOD III
DAVID BAKER
LASKA SCHOENFELDER
JULIA JOHNSON
MARTHA HOGERTY
TOM REIMAN
JIM IRVIN
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APPEARANCES: (Continued)

JIM SCHLICHTING
JOEL SHIFTMAN
MAUREEN SCOTT

1 P R O C E E D I N G S

2 CHAIRMAN KENNARD: Good morning. Good morning and
3 welcome to today's En Banc hearing of the Federal
4 Communications Commission with the Joint Board concerning
5 universal service.

6 We are joined today by the state commissioners who
7 are members of the Federal State Joint Board on universal
8 service and of course, by the consumer advocate member of
9 the Joint Board, Martha Hogerty. We're delighted that
10 you've traveled to join us here today.

11 We have a lot to accomplish today. This will be
12 an open meeting of the Commission. So, we'll have a
13 transcript prepared. And that transcript will be placed in
14 the docket of the universal service reconsideration
15 proceeding.

16 Before we get started, let me give you sort of a
17 brief overview of how we intend to proceed today. First of
18 all, all of the Commissioners on the En Banc panel will be
19 giving brief opening statements. That will be followed by
20 an overview by Jim Schlichting who is Deputy Chief of the
21 Common Carrier Bureau, who will sort of set the stage for
22 the issues that we're going to be discussing today.

23 Next, we will listen to presentations from
24 representatives of 11 different interests -- stakeholders,
25 if you will, who have an interest in the outcome of this

1 proceeding. The presentations will conclude at about 11:15.
2 We have our very expert and experienced timekeeper, LaVera
3 Marshall who will be making sure that you all hold to your
4 appointed three minute presentations.

5 At 11:15, we'll break for about 15 minutes. Then,
6 we will resume again at 11:30 whereupon the Commissioners
7 will engage in questioning of the presenters. And that
8 should take us to about 12:45 when we'll break for lunch.

9 We will then reconvene at 2:30 for about two hours
10 of discussion of the panelists and presenters. And we
11 intend to conclude promptly at 4:30 p.m. today.

12 Well, obviously, we are here to address some very
13 difficult, vexing issues, but issues of great importance to
14 the country at this time. And I think it's important that
15 we not try to sugarcoat these problems. They are very hard.
16 They involve lots of different and competing interests. And
17 frankly, it tends to invoke a lot of emotion. In my six
18 months as Chairman, I don't think any issue has evoked more
19 emotion than universal service from many, many different
20 quarters.

21 So, it's important that we recommit ourselves
22 today to working together to solve these issues, because at
23 the most fundamental level, universal service is about
24 keeping our nation connected and not dividing us. It's
25 about guaranteeing that all Americans have access to

1 advanced telecommunications at affordable rates,
2 particularly those who live in rural and high cost areas.
3 And it's also about implementing the law in a meaningful way
4 to make sure that schools, libraries and rural healthcare
5 centers can also enjoy the benefits of our finest -- the
6 finest telecommunication system in the world.

7 Now, I know we're here to talk specifically about
8 high cost, but I don't think that we can do so without
9 recognizing the intense debate that is swirling around us
10 today about the implementation of the schools and libraries
11 provisions of the '96 Act. A very intense debate fueled by
12 the announcement of -- by AT&T and others that they will
13 start assessing their customers for universal service
14 contributions based on a percentage of each customer's bill,
15 around five percent.

16 Now, I mention this because this is just the tip
17 of the iceberg in this debate in my view, because while some
18 of these assessments will go to schools and libraries, a
19 major portion will also go to fund the high cost mechanism
20 of universal service. So, you can't talk about one
21 mechanism without talking about the other. They are
22 interrelated.

23 Now, interrelated -- and we're undergoing a
24 transition in universal service in this country. A
25 transition from monopoly regulation where we had implicit

1 subsidiaries to a competitive environment with explicit
2 subsidies.

3 And it's going to be a difficult transition. But
4 in the long run, I think we have to count on -- we have to
5 have faith in the fact that competition will ultimately
6 bring rates down. Competition will also make these
7 subsidies explicit. I think we've got to recognize that
8 we're moving toward a two-tier pricing system where carriers
9 will pass their -- recover their fixed costs with a flat
10 line and compete on per minute rates. That's an
11 inevitability, and we're going to have to adjust to that.

12 And in this adjustment, we certainly can't do it
13 alone. We're going to have to work together, the state
14 jurisdiction and the Federal jurisdiction. The state
15 commissioners are our partners today at this hearing, and
16 will be our partners in the future.

17 I want to offer my gratitude to all of them. I
18 want to welcome, in particular, Pat Wood, who is joining us
19 today for the first time, and Dave Baker, also joining us
20 for the first time on the Joint Board, and welcome you and
21 thank you for your sacrifices in taking this effort on.

22 In talking to many of our colleagues, both on the
23 Joint Board, and generally among state commissioners, it's
24 very clear that folks are very focused on this issue. And
25 the state commissioners want to very much participate in

1 this and obviously, have to have a vital role.

2 I conferred with Julia Johnson and other members
3 of the Joint Board and they have formally requested that we
4 refer some of these matters, formally, to the Joint Board.
5 And I'm amenable to doing that. I think that that would be
6 a useful exercise if we can agree on the scope of the
7 referral and if we can agree on a specific time period
8 within which to act. It's vitally important that we
9 continue the momentum of trying to solve this problem going,
10 because we've got to get a solution in a matter of months
11 and not years.

12 Well, today, I hope we can get a lot of good and
13 useful proposals on the table to insure that universal
14 service support continues to keep basic telephone service
15 affordable for Americans in rural and high cost areas, and
16 doing so in a competitively neutral manner.

17 But I think we also have to recognize, as we
18 consider these issues, that all of you here today are
19 motivated by self-interest. You represent companies and
20 organizations that have a particular stake. And I think
21 that in order for us in Government to solve this problem,
22 we're going to challenge you to sort of peel back the veil
23 of self-interest and level with us, and tell us who has
24 truly benefitted and who is truly disadvantaged by these
25 proposals. I'm going to do that in the questioning. And I

1 invite my colleagues up here to do the same.

2 It sort of reminds me of the movie about Watergate
3 when Woodward and Bernstein are consulting with their
4 source, Deep Throat. And they're pressing Deep Throat to
5 try to tell them how to really get to the bottom of the
6 Watergate problem -- the scandal. And Deep Throat, in the
7 now famous utterance said, "Well, just follow the money."
8 Well, I think that's what universal service is all about.
9 It's following the money, finding out who is getting the
10 money and who is paying the money.

11 And I think that we can have an appreciation of
12 where your various proposals -- what they really do unless
13 you level with us on that score.

14 So, I look forward to your cooperation and getting
15 your help today. And I would like now to turn this over to
16 my colleague at the Commissioner, Susan Ness, who has
17 devoted a lot of time and attention to these issues and has
18 been an invaluable member of the Joint Board. And I am
19 pleased that she has agreed to serve as chair of the Joint
20 Board for this, probably its most challenging period.

21 Sorry to put you on the spot yet again, Susan.
22 Commissioner Susan Ness.

23 COMMISSIONER NESS: Thank you, Mr. Chairman. And
24 I, too, wish to extend my welcome and appreciation to my
25 colleagues on the Joint Board for joining us here today.

1 This is universal hearing -- service hearing high
2 cost redux. We have been looking at these issues for an
3 extended period of time. The underlying precepts have been
4 discussed, debated. The Joint Board originally issued its
5 recommendations a year and a half ago. And a year ago last
6 May, the FCC adopted, for the most part, most of the
7 recommendation that have been put forward by the Joint
8 Board. It was a very collaborative process. And the Joint
9 Board members continue to work with us through up until the
10 very end when the Commission itself rendered its decision.

11 Certainly, we will be doing the same thing now,
12 working to refer some items hopefully, to the Joint Board
13 and then proceeding to work through these issues,
14 collaboratively, with the members of the Joint Board up
15 until the final decision is rendered by the Commission. And
16 the reason for that basically is, we're in it together. As
17 Chairman Kennard was saying, basically, it is a
18 collaborative process. It's a bit like a three-legged race
19 in that we cannot move ahead in one piece without the other
20 piece coming together and moving in unison.

21 It is a very complicated situation, made even more
22 cumbersome perhaps by the fact that a lot of the basic
23 assumptions of the speed with which the other pieces of the
24 puzzle, namely the interconnection order and access reform,
25 would take place where -- how rapidly we would see

1 competition unfold, has not met expectations. That's, in
2 large measure as the Chairman was pointing out, because
3 everyone is operating under their own economic self-
4 interests. And perhaps some of those self-interests found
5 their heart in court rather than in the marketplace.

6 But in the meantime, we are, in fact, moving
7 ahead. The concerns that were raised in why we moved so
8 rapidly in the very beginning to try to resolve these
9 extremely difficult issues, was because we recognized that
10 as competition unfolds, the implicit subsidies that have
11 been relied on for so many years to underwrite the cost of
12 local service in high cost areas, were being competed away.

13 And that be the case, some of those implicit
14 subsidies, either by state commission action to reduce them
15 and make them explicit or by FCC action to reduce them and
16 make them explicit, or by the effect of the marketplace,
17 that the underpinning for universal service implicit
18 subsidies might very well begin to deteriorate. We have not
19 seen that happen today, largely because the pace of
20 competition has not been as rapid as we envisioned.

21 The point that I want to make here is that the
22 most important thing, perhaps, for everybody to understand
23 as we enter into this discussion of high cost is that these
24 subsidies are still -- continue to be in effect. Consumers
25 in high cost areas today are enjoying the very same benefits

1 of subsidized service that they have in the past. The Joint
2 Board and the FCC have done nothing that would require local
3 rates to increase.

4 The existing systems of subsidies, of course,
5 needs to be changed and to make it more competitively
6 neutral, competitively sustainable. But again, I want to
7 underscore consumers in high cost areas are already
8 protected. So, the first rule that we ought to be thinking
9 about is, do no harm.

10 The focus with our discussions on high cost fund
11 primarily are engaged around the large local exchange
12 carriers. Once again, at least with respect to the
13 decisions that have been made to date, the rural carriers
14 are not implicated by these decisions in the sense that any
15 efforts to extend the systems to the rural carriers would
16 not take place for several years to come, and then, only if
17 we are absolutely convinced that the effect of these changes
18 will not unduly harm the rural carriers by virtue of
19 assumptions that are being made that are inapplicable to
20 small carriers.

21 So, these are some of the concerns that I want to
22 put to rest and some of the fears that seem to be out there
23 that somehow by the FCC's decisions in the past, that there
24 is a likelihood that rates are going to go up dramatically
25 in the rural areas. That is not so. I don't think there's

1 anyone here that believes that that is our goal, nor is that
2 the mission that has been undertaken today.

3 Another myth I want to put to rest is, folks have
4 come to believe the FCC was trying to shed three quarters of
5 its burden that we previously carried in our 2575 rulemaking
6 that was in place at the time last May. And the reason for
7 the 2575 was a placeholder, because we hadn't completed all
8 of our thought processes with respect to how to structure
9 the high cost fund.

10 We needed to have something in place, and what we
11 thought by preserving what we have in place today, which is
12 essentially 2575, that we were not going to be changing
13 anything dramatically, but basically giving everyone an
14 opportunity to then think about how we go from here to the
15 next step. And again, it was not our intention for anyone
16 to think that we were trying to shed three quarters of our
17 burden that we have undertaken in the past. And again, this
18 does not effect the rural carriers.

19 We do need to be sensitive to shifting more of the
20 burden to the intrastate jurisdiction. Some say we need
21 four billion dollars. Some say it's a 20 billion dollar
22 fund. But even four billion, would require a tax of well
23 over five percent if it's collected solely on intrastate
24 revenues. And this is a very sensitive issue. It's one
25 that we need to think about.

1 So, as I sit and listen to the discussions today,
2 I am going to be focusing on issues such as, what will
3 provided downward pressure on prices? What will keep a fund
4 low? What will encourage competition? What will be fair to
5 folks in the high cost states as well as those in the lower
6 cost states and trying to work with colleagues so that we
7 have a solution that works for both the high cost states and
8 the low cost states because anything else is going to be
9 mired in litigation, as is likely as it is that I finish
10 this cup of coffee by the end of this hearing.

11 I am pleased that Chairman has mentioned that. We
12 are planning to refer some of these issues to the Joint
13 Board. I look forward to working very diligently with my
14 colleagues on the Joint Board to come up with solutions that
15 meet all of those criteria that I just established, and
16 particularly, serve both the needs of the high cost as well
17 as the low cost states. And the sacrifices, gang, have only
18 just begun. So, with that, I want to thank the Chairman for
19 convening this hearing.

20 CHAIRMAN KENNARD: Thank you, Commissioner Ness.
21 And now for the Chairman Julia Johnson who was chairman of
22 the -- really co-chair of the Joint Board. Works with the
23 state members in conjunction with Commissioner Ness as
24 chairman. Wonderful leader, Julia Johnson.

25 MS. JOHNSON: Thank you, Mr. Chairman. I wanted

1 to thank you for convening the meeting and inviting the
2 state members of the Joint Board to participate in this
3 forum. I think this is an excellent first step.

4 Your comments were right on point. The issues are
5 very, very complex. Certainly as Commissioner Ness
6 mentioned, no one's goal is to see local rates go up or to
7 see high cost areas that are not adequately served. And I
8 think by working closely with the state regulators and
9 consumer advocates, we will have a better opportunity to
10 insure that we come up with policies that will, indeed, be
11 fair and reasonable to all.

12 Our expertise, generally, is working with and
13 understanding the local rate-making process and
14 understanding how those mechanisms work. That, coupled with
15 the expertise from the Federal members of the universal
16 service Joint Board, I think, will serve us all quite well
17 in reaching resolution.

18 On March 11, when the state members requested
19 referral of issues to the Joint Board -- universal service
20 Joint Board, we weren't doing that to be contrary. We were
21 doing it to be contributors. And I am pleased to hear that
22 the referral request will indeed be considered,
23 understanding that referral at this point in time, may mean
24 that we may need to add more time to the process.

25 I do understand that the Joint Board process is a

1 formal process, but that allows for dialogue, contribution,
2 reflection, some of the things that we may need to do, and
3 that will, in fact, take additional time. I think it's well
4 worth the time.

5 Let me delineate the issues that we had requested
6 be referred to the Joint Board as, perhaps, a starting point
7 for our discussions when we begin to determine what, in
8 fact, will be referred.

9 First issue, whether the FCC should take
10 responsibility for funding only 25 percent of the high cost
11 subsidy or high cost fund. Now, Commissioner Ness did
12 mention that that particular provision -- the 7525, was just
13 a placeholder. That is encouraging for us. And I think one
14 of our concerns was that, to the extent that it is a
15 placeholder, as we begin developing policies, we'd like to
16 be actively involved in the formulation of those particular
17 policies.

18 Second, whether the FCC should apply Federal
19 universal service funds to reduce interstate access charges.
20 That goes to the paragraph 381 and the access reform docket.
21 We'd like to have more dialogue with respect to that issue.

22 Third, a determination of the appropriate method
23 of formulating and distributing high cost fund money to the
24 states. That, I know and I've read or heard several
25 speeches from members of the FCC and from the states to say

1 that that is an issue that certainly states are interested
2 in. Oftentimes, it's been a debate between states. I think
3 that we can provide some expertise, some knowledge, some
4 sensitivity to that issue as it's being developed.

5 And finally, whether and to what extent the FCC
6 should have a role in making intrastate support explicit.
7 And as part and parcel of any such examination, a referral
8 of Section 254(k) issues concerning the recovery of joint
9 and common costs.

10 Those are the issues that we, originally in our
11 March 11 petition requested to have referred to the
12 universal service Joint Board. We are committed to
13 examining those issues, working closely with our fellow
14 joint board members to reach some resolution on those issues
15 and/or any other issues that we believe and that the FCC
16 believes should be referred to the Joint Board.

17 Again, we welcome and thank you for the
18 opportunity to participate and all of the other
19 commissioners who have had very open door policy, welcomed
20 our comments and our suggestions. I'd like to thank you all
21 because even though we haven't been on this formal track,
22 we've been able to have the kind of dialogue that has been
23 useful to moving the states and the Federal forward. Thank
24 you.

25 CHAIRMAN KENNARD: Thank you, Julia. Next, we'll

1 go to FCC Commissioner Harold Furchtgott-Roth.

2 COMMISSIONER FURCHTGOTT-ROTH: Thank you, Mr.
3 Chairman, and thank you for convening this panel today. I
4 think this is what Congress intended. I think this is the
5 central issue in universal service, coming up with a
6 solution to the high cost fund. And I don't think it can be
7 done by the Federal Commission along. And I think it's
8 absolutely necessary that we have the participation, and at
9 times, even the leadership of the states on this.

10 I am encouraged by the petition from the state
11 members of the Joint Board to have these issues referred to
12 them, not because they're easy issues, not because they're
13 issues that have easy answers, but because the states, and
14 perhaps, the states alone, have the experience and the
15 knowledge to come up with solutions that will work.

16 And I am very pleased to hear that, in fact, some
17 of these issues may be referred to the Joint Board. And I
18 think that, again, is what Congress intended. The language
19 of the statute in 254 that refers to the Joint Board, speaks
20 to its creation, but does not speak to its dissolution.

21 I think only at that time that the issues related
22 to high cost are resolved, can all of the other portions of
23 universal service be adequately addressed. I think it can
24 be done. I think it must be done. And I think that this
25 Commission working together with the states will see to it

1 that Section 254 is fully and properly implemented.

2 We have before us today a great deal of wisdom,
3 many, many panelists, each with different ideas. I think it
4 represents the difficulty of the problems that we all face.
5 Each of you today will give us suggestions that have merit.
6 And it will be up to us, working together with the states,
7 to sort through these options to find one that will work.
8 This is a very difficult challenge.

9 I will keep my remarks brief because mostly what I
10 want to do is to hear from these panelists so I can learn
11 and so all of us can learn about the different options that
12 are before us.

13 Mr. Chairman, I do want to emphasize how grateful
14 I am and how grateful I think the American people that you
15 are holding this session today. And we all look forward to
16 learning from it. Thank you.

17 CHAIRMAN KENNARD: Thank you, Commissioner.
18 Commissioner Schoenfelder.

19 COMMISSIONER SCHOENFELDER: Thank you, Mr.
20 Chairman, and good morning everyone. I am not going to be
21 very long because I don't need to just be redundant, but I
22 do need to thank the Chairman and the rest of the FCC
23 Commissioners for having us here today and for giving us an
24 opportunity to participate in what I consider one of the
25 most important things that I've done since I've been a

1 public utilities commissioner.

2 I think what we're going to do, in collaboration
3 with the FCC, is extremely important. And if it takes a
4 little time, I think it might be time well worth waiting for
5 the end results.

6 I just want to make a commitment now, refer to the
7 Joint Board that the states will step up. We will offer
8 something of substance, and we will do our part. And we
9 will work together with the Commissioners.

10 I would like to go a little bit further with
11 something that Chairman Kennard said, in the fact that, you
12 can't -- today we're going to talk about universal service
13 for non-rural companies. But no company or no service in
14 telephony can be used in isolation or in a box by itself.
15 And I noticed by some of your comments already that were
16 profiled that what some of the proposals do have an impact
17 on rural companies. And so, everything we do has an impact
18 on another part of the network. And I think we're all very
19 much aware of that. And we're also aware of the public
20 policy that we're going to develop here.

21 I think what we're going to do is important. I
22 agree with Commissioner Furchtgott-Roth in the fact that
23 this is what Congress intended for us to do. And I would
24 just like to thank the FCC and everyone else for the
25 opportunity to be here and for the opportunity to address

1 some of these issues one more time. Thank you.

2 CHAIRMAN KENNARD: Thank you. Thank you for being
3 here. Commissioner Powell.

4 COMMISSIONER POWELL: Thank you, Mr. Chairman.
5 This is my first opportunity, formally, to sit down with the
6 Joint Board, and I should say it's a pleasure, but it really
7 is a supreme challenge.

8 Congress has invested this community of people
9 with one of the tallest orders I've ever seen. We are
10 somehow supposed to simultaneously insure affordable, just
11 and reasonable rates for all the nation, including low
12 income consumers, rural insular high cost areas.

13 We're also supposed to provide new services for
14 schools, libraries and rural healthcare providers. We're
15 supposed to do so in a manner that's specific and
16 predictable and sufficient, using both Federal and state
17 mechanisms. And we're not only supposed to preserve
18 universal service, we're supposed to advance it in some way.
19 And all the while, we're supposed to be doing this in the
20 context of stimulating and promoting competition
21 deregulation and innovation.

22 So, I don't need to know if I need to be
23 congratulated or get condolences for now joining this
24 effort. But I'm excited by the challenge.

25 Bill mentioned that it's important for people to

1 speak truthfully about who will really be advantaged and
2 disadvantaged. But when you look at the list of tall orders
3 that we're presented with, the truth to it is, everyone will
4 have an advantage and a disadvantage by the outcome.
5 Anything this complex will mean that. And to recognize
6 that. And to recognize that no one will get everything they
7 want. And everybody will be required to make important
8 compromises that's going to be important.

9 I'd also like to say a word about sort of this
10 controversy about 25 and 75. I think it's really important
11 to remember the key hallmarks of the statute. And the first
12 and foremost of those is sufficiency. It doesn't matter
13 what the mechanisms are, as long as they are sufficient to
14 achieve the national objectives.

15 And so, I challenge us to be creative. Creative
16 in thinking about what universal service is and remember
17 what it's really intended to do. It's hallmark's being,
18 ubiquity and affordability. We should be careful to sort of
19 continue to be vested in legacy forms of doing business that
20 are loaded in the concept of universal service, and instead,
21 sort of sit back and remember what the ultimate objectives
22 of a universal service program are.

23 In conclusion, let me just say that it's very
24 critical we get this right more than anything else. In my
25 own opinion, universal service will be the linchpin for

1 everything that was intended in the Act. And no matter what
2 amount of time it takes, it's first and foremost imperative
3 that we, whatever we do, we'd get it right as much as
4 possible for the first time. I'm pleased to be here and
5 look forward to the discussion. Thank you.

6 CHAIRMAN KENNARD: Thank you, Commissioner.
7 Martha Hogerty.

8 MS. HOGERTY: Thank you, Mr. Chairman. I don't
9 want to be redundant either, but I think it's important to
10 reiterate that the '96 Act envisioned competition in the
11 local network. And once the Bell companies opened their
12 local network to competition, full competition in the long
13 distance network. Those participating in those debates
14 promised more choices, lower rates.

15 Recognizing that pure competition may be
16 inconsistent with our traditional notions of universal
17 service, the Act codified the universal section, and the
18 purpose was to maintain affordable basic services in high
19 cost rural areas and to insure affordable service for low
20 income consumers. Rate increase for basic services were not
21 envisioned, as a couple of the previous Commissioner have
22 pointed out.

23 I think it's very important to remember that the
24 public interest must be interpreted as serving the consumer
25 interest, the consumers of this country, not first and

1 foremost, the industry. The interests of the industry is
2 merely incidental to that of the consumers. The object is
3 not to guarantee financial rewards for industry players, but
4 rather to devise a system to maintain and protect affordable
5 basic rates as competition develops. The pace of the
6 development of competition is key, and it should be focused
7 upon.

8 The challenge for this Board is to insure that a
9 reasonable universal service program is put in place that
10 serves the nations consumers. Thank you.

11 CHAIRMAN KENNARD: Thank you. Commissioner
12 Tristani.

13 COMMISSIONER TRISTANI: Thank you, Mr. Chairman,
14 and good morning. I, too, would like to welcome my friends
15 and former colleagues from the state commissions, both those
16 on the Joint Board and those participating in other ways. I
17 think that some of our colleagues may be listening to this
18 via the phone or via the Internet, so I'll welcome all state
19 commissioners. I also want to thank the panelists for
20 taking time to participate in today's hearing.

21 I first want to note that this hearing is an
22 important step in working closely with state commissions.
23 In previous en banc proceedings, I often found myself seeing
24 an issue differently after hearing it discussed and debated.
25 I think the dynamic of a live discussion, as opposed to a

1 paper presentation, definitely can influence the policy
2 process.

3 I would note my particular interest in a couple of
4 issues that we will discuss today. First, I am interested
5 in hearing about the role of state commissions under each
6 plan. Some plans envision immediate increases in the
7 Federal share of support without requiring additional action
8 by states. Other plans condition additional Federal funds
9 on some sort of state commission action. This is an
10 important issue, and it goes to the question of Federal
11 versus state responsibility.

12 I, personally, believe Section 254 is at the end
13 of the day, a directive to the FCC to insure local telephone
14 service remains affordable. But there are people whose
15 views I greatly respect who favor some sort of state action
16 prior to any change in the Federal share of support.

17 I don't think anyone would say additional Federal
18 support is appropriate only if states balance rates and some
19 customers cancel local service. I also think it is a small
20 number of parties who say the FCC should fund 100 percent of
21 the cost of insuring affordable local service. In between
22 those positions, I expect there are grounds for general
23 agreement. I am optimistic the FCC and the states can
24 devise an approach that can be supported in principle by a
25 large percentage of state and industry segments.